



28 February, 2011

Manager Announcements  
Company Announcements Office  
Australian Securities Exchange  
10th Floor, 20 Bond Street  
SYDNEY NSW 2000

## Triple Crown Prospect Texas Update – OGIP - 9.0 TCF

### Key Points

- **Original Gas In Place (OGIP) assessment completed with 9 TCF in place across existing land holdings of 45,000 acres with significant opportunities to increase this by securing additional lands which is already underway**
- **Initial evaluation of Canyon Sands / Unconventional Gas Play suggests it is geologically analogous to the successful Canadian Montney Hybrid Play**
- **Formation Image Log has identified fracturing in the top of the Ellenburger which is the key to achieving prolific production from the Ellenburger reservoir**
- **Traditional Canyon Sandstones alone appear to provide a company making opportunity**

The Board of Challenger Energy Ltd ("Challenger") is pleased to advise that an initial assessment of the gas in place for the Triple Crown prospect has been completed, incorporating the data from the recently drilled well as well as other wells in the area.

This assessment was made based on an extensive set of existing data from the recently drilled well and a number of surrounding wells, including:

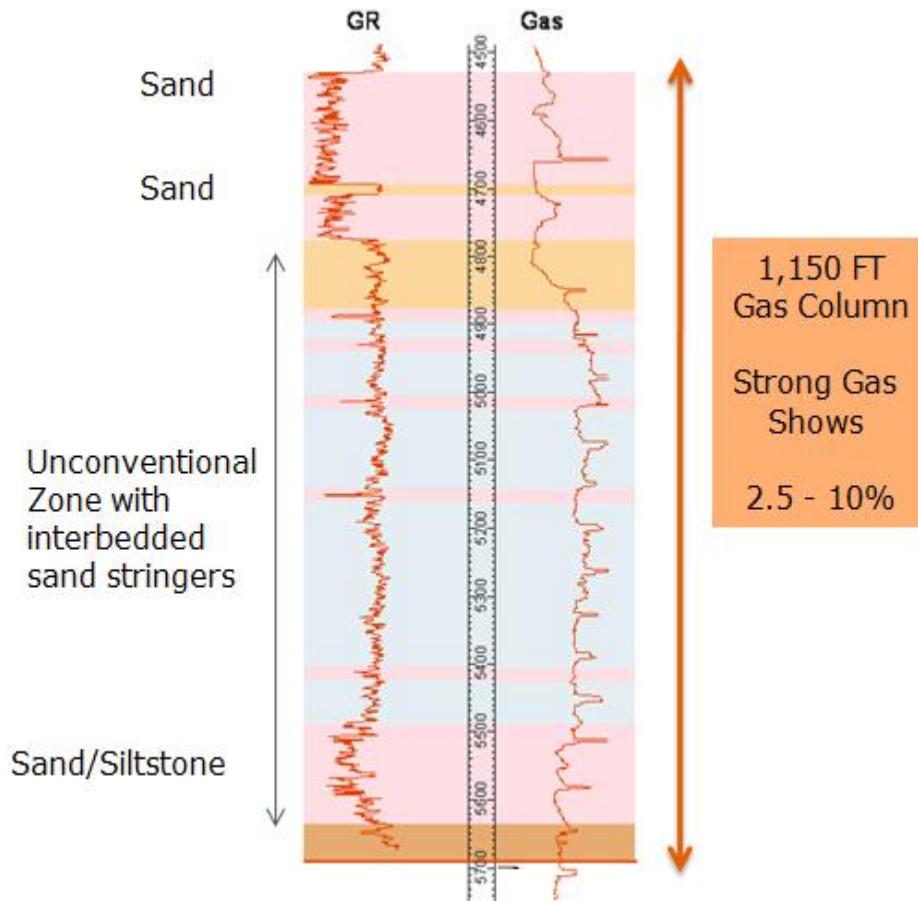
- Wireline logs
- Mud logs
- Xray Diffraction, Total Organic Carbon (TOC) and Image porosity analysis (from other wells drilled in the area)

The gas in place estimate consists of three reservoir zones:

Reservoir Zone	Gas In Place (TCF)
Canyon Sandstones	1.5
Unconventional Zones	5.9
Ellenburger	1.6
<b>TOTAL</b>	<b>9.0 TCF</b>

## Canyon Hybrid Play

Initially the Canyon Sandstones and Unconventional Gas plays were considered separately, however, as a result of the analysis work to date it has become clear that these can be combined and provide a single Hybrid play within the prospect area which consists of several conventional sands which are inter-bedded in a large unconventional gas zone.



The Canyon Sands in the prospect area were deposited in a similar environment to the Montney in Western Canada, and similarly consist of thick sands interbedded with finer-grained sands, siltstones and shales. The Montney has primarily been developed via horizontal fraced wells drilled into the sandstones that are surrounded by unconventional zones.

The Montney play has been the subject of recent corporate activity, with Talisman selling 50% of 51,000 net acres to Sasol in January 2011 for C\$1.05B demonstrating the value that can be created through the exploration and appraisal of these types of reservoirs.

Canyon Sandstones, (which are a prolific producer in the region) appear to have sufficient thickness, porosity and gas saturation across the existing lease holdings to provide a development in their own right.

# Montney Reservoir Types

## Basin Geometry

29

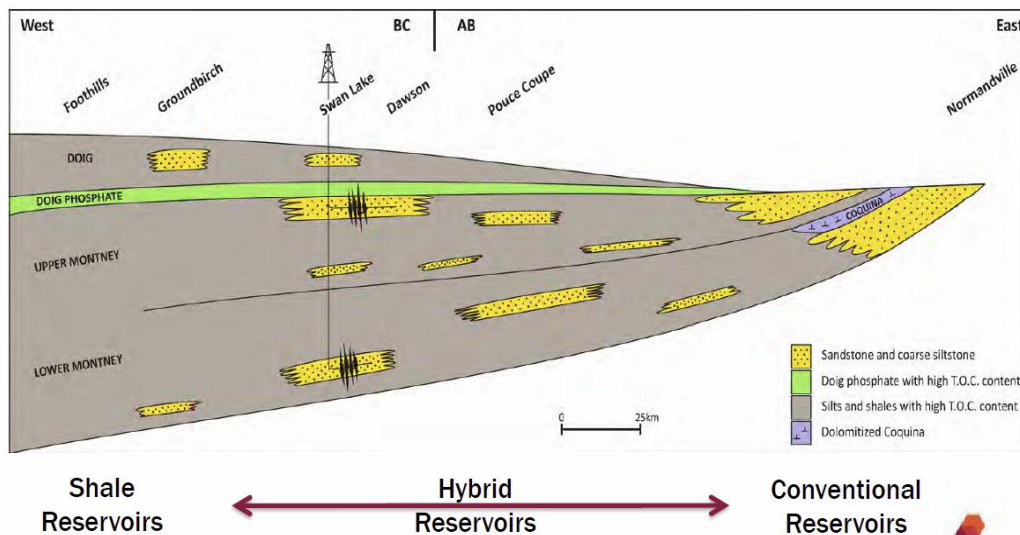


Image source: AJM, 2009



The analysis of the 1,150 ft Hybrid zone where strong gas shows were observed in combination with geological correlations of other wells in the region indicate a gas in place of 7.4 TCF across the across the 45,000 acres (~70 sq miles) the company currently holds. This compares favourably to 120 Bcf/sq mile in the Montney Formation Western Canada.

Further detailed analysis of the existing cores and cuttings is ongoing, this information will assist in calibrating the wireline logs and underpin the conservative assumptions utilised in the initial OGIP calculation. The information will also be essential to the design of the stimulation and testing programmes to be carried out on the well.

The company has secured the services of a number of independent experts to assist in the evaluation and review the results of the extended core testing program.

Following a regional review which incorporated the results of the first well, the company has identified a number of areas (outside the existing lease areas) that appear highly prospective. In order to maximize the value that can be created by having "first mover" advantage, discussions have commenced with land holders and land agents with a view of increasing the core land holdings within the region.

Given the potential size of the prize identified within the Canyon Hybrid play, and the potential to add significantly to the land position (and hence OGIP and company value) the company expects to focus on this play in the short term whilst it completes further analysis of the Ellenburger.

At this stage, the Company expects to design and carry out a fracture stimulation program to test the Canyon Hybrid Play following the completion of the extended core and cuttings testing program.

## **Ellenburger**

Analysis of the mud, wireline and Formation Image logs indicates a 280 ft zone of fracturing, thrust faulting and increased log porosity coincident with a zone of lost circulation encountered whilst drilling. This zone provides all the ingredients that have come together in other prolific Ellenburger wells in the region.

At the time of drilling a large quantity of lost circulation materials (LCM's) had to be pumped into this zone to regain circulation, and ultimately casing was set and cemented over most of this zone. These activities are expected to have filled the near vertical fractures identified in this section. At this time, the company expects that the go forward testing program for the Ellenburger will incorporate the drilling of a new horizontal well, given the operational complexities identified with targeting the Ellenburger in the current well. This will allow the current well to be dedicated to testing the Canyon Hybrid Zone.

In commenting on the results to date, Paul Bilston the Managing Director of Challenger Energy said:

*"This prospect continues to exceed our expectations.*

*I am very pleased to see the initial results of our technical program that has culminated in the assessment of an original gas in place of more than 9.0 TCF across our existing holdings.*

*Our early assessment of the tenure surrounding our current lease holdings combined with our regional geological mapping work suggests we have a fantastic opportunity to strategically add large parcels of land which will materially increase our foothold in this play as well as our gas in place. This will provide shareholders very strong leverage to the success of our ongoing exploration program.*

*A number of recent transactions in this unconventional space, including BHP's recent acquisition in the Fayetteville demonstrate the opportunity that exists for Challenger as it continues to evaluate this prospect. "*

Further updates will be provided in due course.

Yours faithfully,

For and on behalf of Challenger Energy Limited



**Paul Bilston**  
**Managing Director**

Information in this release that relates to or refers to petroleum or hydrocarbon reserves or resources is based on information compiled by Mr Malcolm Lennox (geologist) and Mr David Woodley (Challenger Chief Operating Officer). Mr Lennox is a Bachelor of Science (Geology) and has practised geology and petroleum geology for in excess of 30 years; he is a member of the Petroleum Exploration Society of Australia. Mr Woodley is a Bachelor of Engineering, and a long standing member of the Society of Petroleum Engineers, and has been a practising engineer for more than 20 years. Both consented to the reporting of that information in the form and context in which it appears in this release.